

EXHIBIT 1

INTRODUCTION

Respondent The Doctors' Company Political Action Committee ("DOCPAC") is a state general purpose recipient committee that is sponsored by The Doctors' Company ("TDC"), a medical malpractice insurance carrier. Respondent James Cathcart is the treasurer of DOCPAC.

The Political Reform Act (the "Act")¹ requires a sponsored committee, as defined by Section 82048.7, to disclose on campaign statements the contributions that it receives from its sponsor. In this matter, Respondents failed to timely disclose a contribution made by TDC to its sponsored committee, DOCPAC.

For the purposes of this Stipulation, Respondents' violation is stated as follows:

On a first pre-election campaign statement covering the reporting period January 1, 1998 through March 17, 1998, filed on or about March 20, 1998, Respondents failed to properly disclose a \$62,152 contribution from The Doctors' Company to its sponsored committee, The Doctors' Company Political Action Committee, in violation of Government Code section 84211, subdivision (f).

SUMMARY OF THE LAW

Duty to Disclose Contributions on Campaign Statements

An express purpose of the Act, as set forth in Section 81002, subdivision (a), is to ensure that receipts and expenditures in election campaigns are fully and truthfully disclosed, so that voters may be fully informed, and improper practices may be inhibited. The Act therefore establishes a campaign reporting system designed to accomplish this purpose of disclosure.

One feature of this system is Section 84200, subdivision (a), which requires recipient committees, as defined in Section 82013, subdivision (a), to file semi-annual campaign statements each year no later than July 31 for the period ending June 30, and no later than January 31 for the period ending December 31. In addition, Section 84200.5, subdivision (e) requires recipient committees that are state general purpose committees, as defined in Section 82027.5, subdivision (b), to file two pre-election campaign statements before an election in which the committee has contributed \$500 or more. Section 84200.8, subdivision (a) provides that the first pre-election statement, for the reporting period

¹ The Political Reform Act is contained in Government Code sections 81000 through 91014. All statutory references are to the Government Code unless otherwise indicated. The regulations of the Fair Political Practices Commission appear at California Code of Regulations, Title 2, sections 18109-18996. All regulatory references are to Title 2 of the California Code of Regulations.

ending 45 days before the election, must be filed no later than 40 days before the election. Section 84200.8, subdivision (b) provides that the second pre-election statement, for the reporting period ending 17 days before the election, must be filed no later than 12 days before the election.

Section 84211, subdivision (f) requires that on each of its campaign statements, a committee must report the following information about any person who has contributed \$100 or more to the committee, and has made a contribution to the committee during the reporting period covered by the statement: (1) the contributor's full name; (2) the contributor's street address; (3) the contributor's occupation; (4) the name of the contributor's employer, or if self-employed, the name of contributor's business; (5) the date and amount of each contribution received from the contributor during the reporting period; and (6) the cumulative amount of contributions received from the contributor.

Sponsored Committees

Section 82048.7, subdivision (a) defines a "sponsored committee" as a committee, other than a candidate controlled committee, that has one or more sponsors. A membership organization becomes a sponsor of a committee by collecting contributions for the committee through payroll deductions or dues from its members. (Section 82048.7, subd. (b).)

Under Regulation 18419, subdivision (c), a sponsor does not become a committee with reporting obligations, by virtue of receiving contributions on behalf of its sponsored committee, or making contributions to that committee, if all of the following apply: (1) the sponsor does not receive contributions other than those in support of the sponsored committee; (2) the sponsored committee discloses all of the contributions received by the sponsor, and discloses the true source of those contributions on its campaign statements; (3) the sponsored committee discloses the sponsor as the intermediary of contributions from the sponsor's members; and (4) a responsible officer of the sponsor, as well as the treasurer of the sponsored committee, verify the committee's campaign statements.

Liability of Committee Treasurers

Under Section 81004, subdivision (b), Section 84100, and Regulation 18427, subdivision (c), it is the duty of a committee's treasurer to ensure that the committee complies with all of the requirements of the Act concerning the receipt and expenditure of funds, and the reporting of such funds. A committee's treasurer may be held jointly and severally liable, along with the committee, for any reporting violations committed by the committee. (Sections 83116.5, 91006.)

SUMMARY OF THE FACTS

Respondent The Doctors' Company Political Action Committee ("DOCPAC") is a state general purpose recipient committee. The Doctors' Company ("TDC") is a medical malpractice insurance carrier and the sponsor of DOCPAC. Respondent James Cathcart is the treasurer of DOCPAC. TDC created DOCPAC in 1992 to support various statewide and legislative candidates. DOCPAC receives its contributions from the physicians who are insured by TDC. This case arose as a result of an audit by the Franchise Tax Board of DOCPAC's activities during the period January 1, 1997 through December 31, 1998.

On November 5, 1996, the voters passed Proposition 208, which established contribution limits for elections held in California. Soon thereafter, TDC reorganized DOCPAC into a Proposition 208 small contributor committee so that DOCPAC could make contributions under the higher contribution limits that applied to small contributor committees. TDC also created a separate fund for educational purposes, called MICRA Issues PAC.² TDC funded both DOCPAC and MICRA Issues PAC with payments from the insured physician members of TDC.

On January 6, 1998, a federal court enjoined the enforcement of Proposition 208. The following week, on January 14, 1998, TDC closed out the MICRA Issues PAC account and reorganized DOCPAC as a regular state general purpose recipient committee. As part of these transactions, TDC transferred all of the funds in the MICRA Issues PAC account, totaling \$62,152, to DOCPAC. On March 20, 1998, Respondents filed a first pre-election statement campaign statement for the reporting period January 1, 1998 through March 17, 1998. On the statement, Respondents failed to report the \$62,152 payment from TDC. Seven months later, Respondents amended the March 20, 1998 campaign statement to report the \$62,152 payment. By failing to disclose the \$62,152 payment from TDC to DOCPAC on the March 20, 1998 pre-election campaign statement, Respondents violated Section 84211, subdivision (f).

In aggravation, Respondents were previously given a warning by the Enforcement Division regarding a violation of the Act. In 1996, Respondents failed to disclose \$188,000 in loans made by TDC to DOCPAC, for which the Enforcement Division issued a warning letter to Respondents.

CONCLUSION

This matter consists of one count, which carries a maximum possible administrative penalty of Two Thousand Dollars (\$2,000). In light of Respondents' previous violation of the Act, the facts of this case justify imposition of the agreed upon penalty of Two Thousand Dollars (\$2,000).

2 MICRA is a shorthand reference to a body of law that governs malpractice claims against physicians.